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OFFICE OF STRATEGIC PLANNING AND BUDGETING
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JOINT LEGISLATIVE BUDGET COMMITTEE
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Gary M. Yaquinto
Director, OSPB

Richard Stavneak
Director, JLBC Staff

February 10, 2006

The Honorable Janet Napolitano
Governor of Arizona
Office of the Governor
1700 W. Washington
Phoenix, Arizona 85007

The Honorable Ken Bennett
Senate President
Arizona State Senate
1700 W. Washington
Phoenix, Arizona 85007

The Honorable James Weiers
Speaker of the House
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

Dear Governor Napolitano, President Bennett and Speaker Weiers:

Section 114 of Laws 2005, Chapter 286 established a FY 2006 General Fund forecast of \$7,904,179,800. Section 114 provides that, by February 10, 2006, the staff director of the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB) shall jointly determine whether the FY 2006 revenue collections through December exceed the FY 2006 forecast for that same time period, and, if so, by how much. These estimates are to be used to fulfill the requirements of Chapter 286, which appropriates revenues in excess of the enacted budget estimate into the Budget Stabilization Fund (BSF).

Chapter 286 also provides that JLBC Staff and OSPB may jointly agree to adjust the monthly revenue forecast to reflect technical revisions. We are recommending one adjustment to the original monthly forecast. Laws 2005, Chapter 332 provides that the first \$10 million of in-lieu inspection fees be transferred into the General Fund. This transfer was originally anticipated to occur in July and August 2005. The transfer will not take place until June 2006, and the forecast has been adjusted accordingly.

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It is estimated that, excluding the beginning balance, FY 2006 General Fund revenue collections total \$4,193,032,600 through December. This total is \$332,957,600 greater than the adjusted forecast for the first 6 months of the fiscal year.

| FY 2006 6-Month YTD General Fund Revenue | |
|--|-----------------------|
| Original Forecast | \$3,870,075,000 |
| Less Technical Revision ^{1/} | <u>- 10,000,000</u> |
| Adjusted Forecast | 3,860,075,000 |
| Actual Collections | <u>4,193,032,600</u> |
| Variance | <u>\$ 332,957,600</u> |
| Deposit to Budget Stabilization Fund | <u>\$ 332,957,600</u> |
| 1/ Move estimate for in-lieu inspection fee transfer from July/August 2005 to June 2006. | |

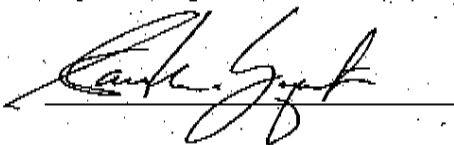
When this deposit is combined with existing monies in the fund, the BSF will have a total of \$495,514,200.

The FY 2006 enacted budget included an allocation of \$58.3 million for refunds related to the settlement of the Ladewig v. State of Arizona lawsuit. This amount will be allocated to the income tax refund account, and the settlement refunds will be paid from the account. It should be noted that the revenue estimates and actual collection amounts provided above do not reflect the allocation or refund of Ladewig payments, as they have been accounted for as an expenditure item.

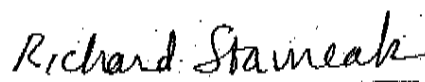
Chapter 286 further provides that, by July 31, 2006, JLBC and OSPB shall jointly determine whether total FY 2006 revenue collections exceed the established forecast for the year, and if so, by how much. The amount in excess of the forecast, less any amount transferred as a result of July through December excess collections noted above, is to be appropriated into the BSF.

Sincerely,

Gary M. Yaquinto, Director, OSPB



Richard Stavneak, Director, JLBC



xc: David Peterson, State Treasurer